

## Types of Year-End Financial Reports

Source:

[http://www.nabetcwa.org/pages/the\\_difference\\_between\\_an\\_audit\\_review\\_audit\\_and\\_a\\_compilation](http://www.nabetcwa.org/pages/the_difference_between_an_audit_review_audit_and_a_compilation)

### A Comparison

**Compiled Financial Statements** represent the most basic level of service CPAs provide with respect to financial statements. In a compilation, the CPA must comply with certain basic requirements of professional standards, such as having a knowledge of the client's industry and applicable accounting principles, having a clear understanding with the client as to the services to be provided, and reading the financial statements to determine whether there are any obvious departures from generally accepted accounting principles (or, in some cases, another comprehensive basis of accounting used by the entity). It may be necessary for the CPA to perform "other accounting services" - such as creating your general ledger, or assisting you with adjusting entries for your books - before the financial statements can be prepared. Upon completion, a report on the financial statements is issued that states a compilation was performed in accordance with AICPA professional standards, but no assurance is expressed that the statements are in conformity with generally accepted accounting principles. This is known as the expression of "no assurance." Compiled financial statements are often prepared for privately held entities that do not need a higher level of assurance expressed by the CPA.

**Reviewed Statements** require that the CPA perform inquiry and analytical procedures in addition to the procedures described above for a compilation. Upon completion, a report is issued stating that a review has been performed in accordance with AICPA professional standards, that a review is less in scope than an audit, and that the CPA did not become aware of any material modifications that should be made in order for the statements to be in conformity with generally accepted accounting principles, or if applicable, another comprehensive basis of accounting. This is known as the expression of "limited assurance." Reviewed financial statements are often prepared for entities that have bank loans, outside investors, or trade creditors, but those third parties do not require audited statements.

**Audited Financial Statements** are the product of a CPA's highest level of assurance services. In an audit, the CPA performs all of the steps indicated above regarding compiled or reviewed statements, but also performs verification and substantiation procedures. These verification and substantiation procedures may include direct correspondence with creditors or debtors to verify details of amounts owed, physical inspection of inventories or investment securities, inspection of minutes and contracts, and other similar steps. Also, the CPA gains a knowledge and understanding of the entity's system of internal control. When the audit is completed, the CPA's standard audit report states that an audit was performed in accordance with generally accepted auditing standards, and expresses an opinion that the financial statements present fairly the entity's financial position and results of operations. This is known as the expression of "positive assurance."

### Audit vs. Review

There are significant differences between the objectives of an audit of financial statements in accordance with generally accepted auditing standards and the objectives of a review in accordance with statements on standards for accounting and review services. The objective of an audit is to provide a reasonable basis for expressing an opinion regarding the financial statements taken as a whole. A review does not provide a basis for the expression of such an opinion because a review does not contemplate obtaining an understanding of the internal control structure or assess control risk, tests of accounting records and of responses to inquiries by obtaining corroborating evidential matter through inspection, observation or confirmation, and certain other procedures ordinarily performed during an audit. A review may bring to the accountant's attention significant matters affecting the financial statements, but it does not provide assurance that the accountant will become aware of all significant matters that would be disclosed in an audit.